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July 20, 2002

Idaho Public Utilities Commission
472 W. Washington
Boise, Idaho

Re: Case Number GNR-E-02-1, Order Number 29020

Dear Commissioners,

I am the CEO and one of the Founders of US Geothermal Inc., an Idaho corporation that was established to develop a clean, renewable, power generation facility at the Raft River geothermal site near Malta in Cassia County. I am an Idaho resident and represent the 18 current shareholders of the corporation, most of whom are also Idaho residents. Raft River is a former Department of Energy geothermal test site where a geothermal reservoir was found, developed and used to power a pilot binary cycle 5 megawatt geothermal power plant in the early l980's. It is an outstanding, proven resource for the state of Idaho.

The site was shut down and sold by the Department of Energy in l983. It has remained dormant until now, when advances in technology and the potential emergence of a renewable power market in Idaho and the West have allowed us to reactivate it. The world leading geothermal consulting firm of GeothermEx Inc, of Richmond, California has reviewed the technical data on the site and has projected that 10 MW of power can be produced at the site from 3 of the existing wells in the field. GeothermEx further estimates that up to 20 MW may be available on the existing site.

Geothermal power plants utilize proven technology that provide close to 3,000 MW of power in the United States. Geothermal power is "Base Load" power with a record of over 98% availability, and since it is renewable, has a history of long field life – over 40 years at the Geysers field in California. In these ways, geothermal power is very similar to conventional hydro-power except that geothermal has the advantage of not being affected by drought.

US Geothermal is prepared to proceed with the development of this resource and would like to have the question of the avoided cost rate settled. Development of the Raft River site will have a significant positive economic impact to rural Cassia County. The capital cost for this 10MW power plant is estimated at $21 million dollars and will provide long term, permanent jobs for rural Idaho. With expansion of the geothermal field, increased tax base and additional jobs would be added. Further, spent geothermal solution can be re-used in other agricultural business such as greenhouses, or aquaculture, creating more jobs and economic opportunity.

I am an engineer that has worked 25 years in the natural resource field. I believe that the avoided cost calculation for PURPA must be fair to all parties, it needs to temper the peaks and valleys of price cycles, and yet it must stay true to its intent; to encourage the promotion and development of renewable energy technologies as alternatives to fossil fuels and the construction of new generating facilities. Examine where we are in Idaho today. No new renewable projects have been built and the only solution offered is to build large power generation facilities that rely on a fossil fuel (natural gas).

It is my recommendation that the Commission readopt the July 2000-2001 avoided cost rates rather than implement the new July 2001-2002 rates. I believe this action would both satisfy the concerns about recent high natural gas

prices and would still promote the development of renewable energy projects in Idaho. If the Commission intends to change the avoided cost calculation, then I would ask that the following primary items be considered:

Current Year Fuel Cost - Since there is a desire to avoid "volatile" prices (both high and low prices), and since the most volatile price swings are relatively short in duration, why not simply use the previous two or three-year average fuel cost to smooth the curve. Additionally, the fuel cost should include all costs associated with the use of natural gas at the power plant. That is the "burner tip cost" which includes the cost of delivery. This is a significant cost that must be included to accurately calculate the true avoided cost.

Escalation Rate for Fuel - In a December 2001 report entitled "US Natural Gas Markets", the Energy Information Administration, of the US Department of Energy made several important points. First, the number of new gas field discoveries has dropped off; second, new gas wells are depleting at a much faster rate than they have in the past; third, the US gas supply is inelastic and can no longer respond to shortages because the excess capacity it once enjoyed is gone and finally, there has been a serious decline in storage capacity which exacerbates the inelastic supply problem.

There also appears to be a convergence of the gas supply market and the electric power market that bears ominous consequences for those considering reliance on gas-fired generation in the future. The Northwest Power Planning Council's April 2002 Draft Price Forecast For Fifth Power Plan states that because of the Northwest's complete reliance on natural gas fired generators to meet projected electricity demand, gas consumption will nearly double in the next twenty years.

This is not a favorable scenario for long-term stability in the price of natural gas. In my opinion, the price volatility seen in the natural gas market will become more the rule, than the exception, in future years. I strongly recommend that the Commission maintain the current 6% escalation rate.

First Deficit Year – Although interesting conceptually, this doesn't seem to be a real number and appears to always be pushed forward. Utilities will always build or acquire additional generation to avoid their own projected deficit. While useful for planning purposes, I do not believe there should be a First Deficit Year in the avoided cost calculation.

The plan for Idaho's energy future must include a diverse mix of energy supply. The public has expressed its preference for clean, renewable energy rather than rely on the increased use of and dependence on fossil fuel. Renewable projects will bring substantial economic benefits to Idaho, will provide the benefit of distributed generation and will act as a hedge against future natural gas price spikes. I urge you to provide a reasonable, fair avoided cost rate that will truly promote renewable energy for Idaho.

Sincerely,

Douglas J. Glaspey
CEO